FISCAL NOTE

Bill #:	SB0246	**Title:**	Revise tax incentive financing to facilitate interstate exits
Primary Sponsor:	Lewis, D	**Status:**	As Introduced

Sponsor signature Date   David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$0
Revenue:		
General Fund	$0	$0
Net Impact on General Fund Balance:	$0	$0

☒ Significant Local Gov. Impact	☒ Technical Concerns
☐ Included in the Executive Budget	☒ Significant Long-Term Impacts
☐ Dedicated Revenue Form Attached	☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill would allow any incorporated city or town, county, or city-county consolidated local government to establish a tax increment financing district specifically for the planning, design, and construction of an interstate highway exit.
2. The district must consist of a continuous area with an accurately described boundary adjacent to or transected by an interstate highway; must be found to be in need of an exit from the interstate highway; and must have as its purpose the development of an interstate highway exit.
3. Once the district has been established, the taxable value of all property within the boundaries of the district at the time the district is established becomes the “base” value of the district. After the base value has been established, the taxable value of all property added to the district is included in the district’s increment value. State and local governments will continue to apply their mill levies to the value of all property within the district, but the revenue derived from applying mill levies to the increment value will accrue to the interstate highway interchange tax increment financing district, rather than to state and local governments (with the exception of revenue from the university 6-mill).
4. Revenues accruing to the interstate highway interchange tax increment financing district may be used to reimburse the Department of Transportation for costs associated with the planning, design, and construction of an interstate highway exit. These revenues may also be pledged for the payment of

revenue bonds issued for interstate highway exit projects or of general obligation bonds, revenue bonds, or special assessment bonds issued to pay interstate highway interchange district costs.

5. Because property taxes are collected in November and May of the following fiscal year, the increment would have to be recognized as of January 1, 2006 to have any impacts in the current biennium.
6. It is unknown if any interstate highway interchange districts will be created in time to have any impacts in the current biennium. However, for the purposes of this fiscal note the following example of a TIF district will illustrate the fiscal impacts on government revenues if one interstate highway interchange districts is established as of January 1, 2007:
   - Assuming an investment of $1,000,000 in the first year the TIF is created, with $800,000 investment in real property and $200,000 in personal property.
   - For tax year 2007, the incremental taxable value of real property in the TIF district would be $20,974((($800,000 - ($800,000 x 14.60%)) x 3.07%).
   - For tax year 2007, the incremental taxable value of personal property in the TIF district would be $6,000 ($200,000 x 3%)).
   - For tax year 2007, the total incremental taxable value of the TIF district would be $26,974 ($20,974+ $6,000).
   - The incremental taxable value of the district would take effect January 1, 2007, but the property tax collected on the increment would be collected in November 2007 and May of 2008, or FY 2008.
   - Using the aforementioned assumptions, this bill would reduce general fund revenues by $2,563 ($26,974 x 95 mills) in FY 2008.
7. There are no administrative impacts to the Department of Revenue from this bill.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

A local governing body, by ordinance and following a public hearing, will authorize the creation of an interstate highway exchange district for interstate exit projects. Local governments and school districts would lose tax base, along with revenues not received from the incremental value of districts. In the illustrated example of a $1,000,000 increment, if local governments and schools had a combined mill levy of 500 mills, revenues would decrease by $13,487 ($26,974 x 500 mills) in FY 2008.

LONG-RANGE IMPACTS:

This bill will have a long-range impact on the state general fund. As shown under the assumptions section of this fiscal note, if a $1,000,000 investment in a interstate highway exchange district were authorized and established as an incremental district, SB 246 would reduce general fund revenues by $2,563.

The Department of Transportation (MDT) will need budget authority to expend the funds necessary for design and construction of interchanges approved by an interstate highway interchange tax increment financing districts. These costs will not be incurred for a number of years depending on the complexity of design and environmental documents. Estimated costs are between $2,000,000 and $4,000,000 for design and between $5,000,000 and $12,000,000 for construction of each new interchange.

TECHNICAL NOTES:

1. Section 1(1)(b) indicates a local governing body may find the need for an interstate exit. The determination of need may be in conflict with long-range statewide transportation needs or contrary to federal guidelines for interstate system access. It may put MDT in a position of being unable to

accommodate the local governing body. However, this approach to generating a revenue stream for cost participation with the MDT on interchange projects is consistent with Transportation Commission Policy.

2. The MDT is not in a cash position to front the entire cost of this type of projects. The interstate highway interchange tax increment financing districts will need to structure finance options to be able to reimburse the MDT on a percentage-complete basis.
3. An interstate highway interchange tax increment financing district would receive revenue on the amount of new taxable value in the district after its creation. In the aforementioned example of a district with an initial investment within the district of $1,000,000, the TIF district would receive revenue of $16,049 ($2,563 state mills + $13,486 local government mills) in FY 2008. Property tax revenue for such large interchange projects (between $7 and $16 million - see long range impacts) under this scenario may not be adequate as a funding mechanism for such projects, unless much larger investments are made within a new TIF district.